

DIVISION OF FINANCE

MARYLAND RESEARCH AND DEVELOPMENT
TAX CREDIT PROGRAM

ANNUAL STATUS REPORT
TAX YEAR 2012
TAX-GENERAL ARTICLE

SECTION 10-721(g)

Submitted by:

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Development

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Maryland R&D Tax Credit, TY 2012 Summary

The Maryland Research and Development Tax Credit program was enacted during the 2000 session of the Maryland General Assembly. The statute requires that each business wishing to receive tax credits apply to the Department of Business and Economic Development (DBED) for certification on or before September 15th of the calendar year following the tax year for which the R&D expenses were incurred. For September 15, 2013, businesses applied to DBED for expenses incurred in the Tax Year Ending (TYE) 2012. After receiving certification, a business may amend its tax return and receive a refund. If the credit exceeds the business's tax liability, the unused portion of the credit may be carried forward for up to seven years.

The Maryland Research and Development Tax Credit Program includes two tax credits.

Basic R&D Tax Credit- *This credit is 3% of eligible R&D expenses that do not exceed the Maryland Base Amount. The Maryland Base Amount is a business's average R&D expenses over the last four years. However, if the total amount of credits claimed by all businesses exceeds \$4 million, then the Basic R&D tax credit will be prorated.*

Growth R&D Tax Credit- *This credit is 10% of eligible R&D expenses that exceed the Maryland Base Amount. However, if the total amount of credits claimed by all businesses exceeds \$4 million, then the Growth R&D tax credit will be prorated.*

Changes made during the 2013 legislative session allow a business that meets the definition of a "small business" to claim a refund of the unused credits. A "small business" is defined as a for-profit corporation, limited liability company, partnership, or sole proprietorship with net book value assets totaling, at the beginning or the end of the taxable year for which Maryland qualified research and development expenses are incurred, as reported on the balance sheet, less than \$ 5,000,000.

DBED certified 204 businesses to receive credits for research conducted in Maryland for their tax year ending in 2012. The businesses applying for the Maryland R&D tax credit incurred \$1,213 million in research and development expenses in TYE 2012. Of the 204 businesses that received certification, 68% increased their R&D expenses in 2012 over their average R&D expenses from the previous four years, and were therefore, able to claim the Growth R&D Tax Credit.

At the *nominal statutory rates* of 3% for the basic research credit and 10% for the growth credit, applicants would have received \$29.2 million in basic research credits and \$23.9 million in growth credits. However, the credits are limited to \$4 million each. The basic R&D credit was 7.3 times oversubscribed and the growth credit was 5.9 times oversubscribed. These limits reduced the *effective rate* for the basic credit to 0.411 percent and the *effective rate* for the growth credit to 1.67 percent.

The applicants and the amount of credits for which they were certified are included in the attached appendices.